Disclosure and Behavioral Economics

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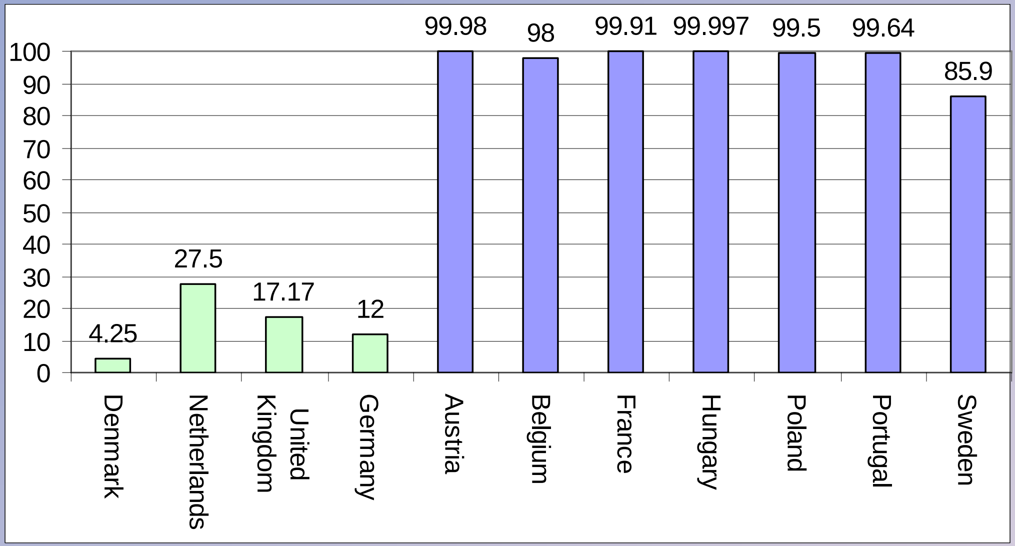
Major Departures

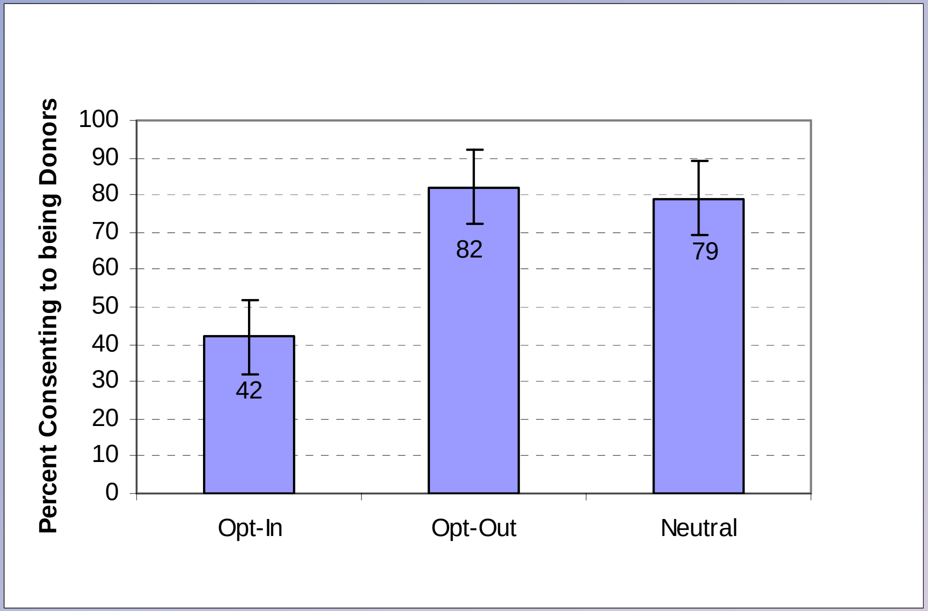
- Consumers have a ‘cost of thinking’
  - Increasing marginal cost
  - Not allocated optimally
- What does this say?
  - About the choice of defaults?
  - About Disclosures?

Defaults



- For default choice, we want to pick the default that most people would pick without defaults.....

Defaults



- For default choice, we want to pick the default that most people would pick without defaults.....
- Failures to do so reduce welfare.

How about Disclosures?

For consumers, disclosure does not always improve their decisions.

Disclosures should be designed to minimize thinking costs.

- The data is less encouraging
  - Disclosures can ‘absolve’ providers
    - Judgments can be less consumer oriented.
  - Disclosure can be seen by consumers as endorsements

What then, must one do?

- One option: Simply prevent the conflict from occurring
- Another: Have people opt-in to regimes that have potential conflicts
- One more: Create effective disclosures
  - More information is **not** better
  - Must reflect heterogeneity among consumers in decision resources.
  - Without empirical evaluation disclosures can do more harm than good.